

FDIC State Profile

SUMMER 2003

Iowa

Iowa's economy continued to lose jobs in 2002, but improved modestly in early 2003.

- Employment slowed in 2000 and began to contract in November 2000, well in advance of the national employment decline (see Chart 1). Employment growth has been negative during the past two years, but monthly declines have continued to be modest since October 2002.
- Employment weaknesses have been centered in durable goods manufacturing, but losses in that sector continue to decline.
- Seasonally adjusted unemployment in Iowa peaked at 4.4 percent in January 2002, the highest level since February 1997. Unemployment remains at 4.0 percent as of February 2003.

Higher prices for Iowa's major agricultural commodities point to improved farm income in 2003.

- United States Department of Agriculture surveys indicate that Iowa farmers will lead the nation in corn and soybean acreage again in 2003, with total plantings equal to those in 2002.
- As shown in Chart 2, Iowa growers will likely benefit from higher corn and soybean prices, as U.S. inventories of both crops are at their lowest levels in five years.
- Results for livestock producers have also improved moderately in 2003. Hog prices have improved, a result of reduced supplies, although higher corn prices have increased the cost of production. A declining supply of beef cattle has supported higher prices in that sector.

Depopulation will continue to affect rural areas in Iowa.

- As shown in Map 1, 69 of Iowa's 99 counties have lost population since 1970, and in three of those counties at an increasing rate during the 1990s.
- Technological changes and consolidation in the agricultural sector have reduced the demand for farm labor, and farmers have become less dependent on nearby small towns to purchase inputs and professional services.
- As a result, people have migrated from rural to metropolitan areas seeking better employment opportunities.
- Counties that are losing population more rapidly may be in danger of losing economic viability, as shrinking tax rolls may make essential infrastructure, such as utilities and school systems, difficult to maintain.

Chart 1: Iowa Employment Growth Continues to Lag Nation

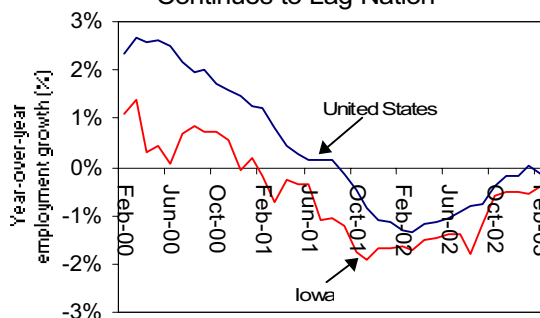


Chart 2: Iowa Commodity Prices Likely to Improve Significantly in 2003

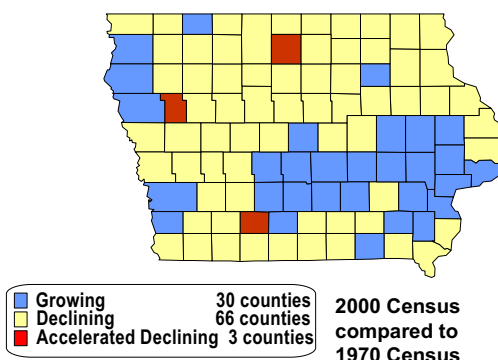
	2001	Est 2002	Proj. 2003	Proportion of State's Ag Revenue
Corn	1.85	1.97	2.35	27%
Soybeans	4.54	4.25	5.40	19%
Cattle	72.71	67.50	76.00	16%
Hogs	45.81	33.50	39.00	27%
Milk	14.97	12.10	11.25	5%

Note: Grain prices are for marketing year of each crop.

Crop quantities are per bushel; livestock and milk are per hundredweight

Source: USDA April 2003

Map 1: Depopulation Affects Most Rural Counties in Iowa



Community banks headquartered in Iowa continue to report sound asset quality, despite the economic slowdown.

- Relatively moderate levels of noncurrent and past-due loans remain well below levels reported by insured institutions headquartered in other Midwest states (see Chart 3). Charge-off rates also remain low.
- Loan loss reserve levels have declined in proportion to total loans, but appear stable relative to the coverage of problem loans.

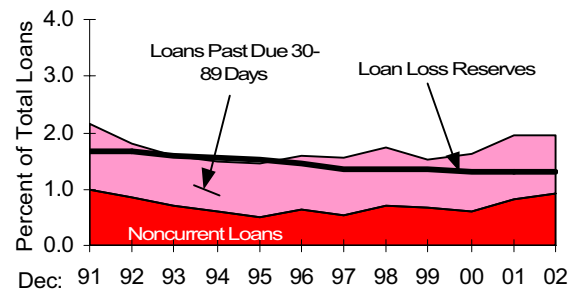
Community banks continue to face challenges in maintaining net interest margins.

- Net interest margins (NIMs) declined steadily during the 1990s among community banks headquartered in Iowa, because of strong and increasing loan and funding competition as well as depopulation trends in rural areas (see Chart 4).
- Recent NIM fluctuations, both positive and negative, are attributable to Federal Reserve interest-rate actions, and do not signal an end to the longer-term trend of NIM erosion.
- Generally, banks that accept greater credit risk by making more loans are rewarded with higher NIMs. However, this did not hold true in the 1990s, as community bank NIMs declined despite dramatic increases in loan-to-asset (LTA) levels.
- Economic slowdowns typically result in declining LTA ratios, and community bank NIMs could be pressured downward should LTA levels return to historically normal levels.

Community institutions in Iowa continue to face funding challenges.

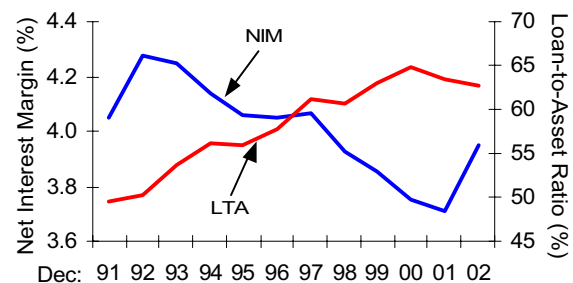
- Utilization of core funds to support assets declined steadily throughout the 1990s because of negative population trends, competitive challenges from larger banks and nonbanks, and significant disintermediation of funds into the stock and bond markets. As a result, the median core deposits to total assets ratio for community institutions declined from 85 percent to 74 percent between year-end 1992 and year-end 2002.
- To counter declining deposits, community institutions headquartered in Iowa increased reliance on noncore funds, such as large time deposits and borrowings.
- The use of borrowings, primarily Federal Home Loan Bank advances, has increased dramatically. Between December 1997 and December 2002, the proportion of community institutions with borrowings making up at least 10 percent of total funds increased from 9.0 percent to 28.8 percent.
- The weak economy and significant declines in the stock market have prompted a great shift of deposit

Chart 3: Past-Due Loans Remain Relatively Low and Reserves Remain Stable



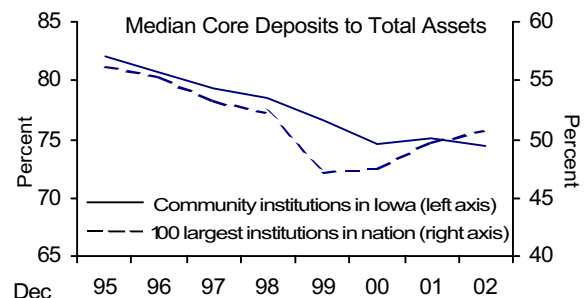
Source: Bank Call Reports, commercial banks with assets less than \$250 million headquartered in Iowa, excluding de novos and specialty banks

Chart 4: Net Interest Margins Have Eroded Despite Increasing Loan-to-Asset Ratios



Source: Bank Call Reports, commercial banks with assets less than \$250 million headquartered in Iowa, excluding de novos and specialty banks

Chart 5: Core Funding Has Increased at Larger Institutions More Than Smaller Institutions



Source: Bank and thrift call reports. Community institutions are FDIC-insured institutions with total assets under \$250 million headquartered in Iowa.

funds into the banking system. However, as seen in Chart 4, most of the benefit has accrued to the nation's larger banks.

- See "Kansas City Regional Perspectives - Despite Recent Deposit Growth, Community Banks Continue to Face Funding Challenge," FDIC Outlook, Spring 2003, for further discussion about funding.

Iowa at a Glance

General Information	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Institutions (#)	433	441	456	463	466
Total Assets (in thousands)	55,118,375	52,314,374	48,996,794	48,542,484	49,779,334
New Institutions (# < 3 years)	11	17	21	21	20
New Institutions (# < 9 years)	40	41	41	36	28
Capital	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Tier 1 Leverage (median)	8.96	8.80	8.99	9.18	9.25
Asset Quality	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Past-Due and Nonaccrual (median %)	1.53%	1.61%	1.31%	1.06%	1.46%
Past-Due and Nonaccrual >= 5%	32	25	22	20	16
ALLL/Total Loans (median %)	1.27%	1.22%	1.21%	1.25%	1.30%
ALLL/Noncurrent Loans (median multiple)	1.90	2.06	2.64	2.96	2.90
Net Loan Losses/Loans (aggregate)	0.26%	0.28%	0.18%	0.17%	0.28%
Earnings	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Unprofitable Institutions (#)	15	14	18	26	20
Percent Unprofitable	3.46%	3.17%	3.95%	5.62%	4.29%
Return on Assets (median %)	1.17	1.02	1.06	1.06	1.13
25th Percentile	0.84	0.75	0.76	0.77	0.87
Net Interest Margin (median %)	3.96%	3.73%	3.78%	3.84%	3.92%
Yield on Earning Assets (median)	6.67%	7.61%	7.97%	7.64%	7.92%
Cost of Funding Earning Assets (median)	2.69%	3.87%	4.17%	3.79%	3.96%
Provisions to Avg. Assets (median)	0.12%	0.11%	0.08%	0.10%	0.09%
Noninterest Income to Avg. Assets (median)	0.55%	0.53%	0.50%	0.49%	0.49%
Overhead to Avg. Assets (median)	2.63%	2.58%	2.53%	2.52%	2.54%
Liquidity/Sensitivity	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
Loans to Deposits (median %)	76.04%	75.84%	78.12%	74.86%	71.47%
Loans to Assets (median %)	62.70%	63.64%	64.96%	63.29%	60.67%
Brokered Deposits (# of Institutions)	69	62	52	56	62
Bro. Deps./Assets (median for above inst.)	1.71%	1.49%	1.42%	0.96%	1.14%
Noncore Funding to Assets (median)	14.70%	14.13%	14.49%	12.55%	10.58%
Core Funding to Assets (median)	73.82%	74.38%	73.96%	76.13%	77.88%
Bank Class	Dec-02	Dec-01	Dec-00	Dec-99	Dec-98
State Nonmember	305	312	325	329	331
National	50	46	45	47	50
State Member	55	59	61	63	62
S&L	5	5	5	5	5
Savings Bank	18	19	20	19	18
Mutually Insured	0	0	0	0	0
MSA Distribution	# of Inst.	Assets	% Inst.	% Assets	
No MSA	341	29,634,437	78.75%	53.77%	
Des Moines IA	26	14,877,225	6.00%	26.99%	
Cedar Rapids IA	19	1,579,797	4.39%	2.87%	
Davenport-Moline-Rock Island IA-IL	11	2,406,043	2.54%	4.37%	
Sioux City IA-NE	8	1,594,960	1.85%	2.89%	
Iowa City IA	8	2,011,644	1.85%	3.65%	
Waterloo-Cedar Falls IA	7	880,430	1.62%	1.60%	
Dubuque IA	7	1,619,974	1.62%	2.94%	
Omaha NE-IA	6	513,865	1.39%	0.93%	